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MEXICO

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Without considering present disturbed political conditions in Mexico which must be looked upon in the nature of evolutionary rather than revolutionary and which conditions will adjust themselves as all other political movements have done elsewhere—Mexico, by reason of its geographical relation to the United States, must be considered as the logical heir over all other fields for American enterprise, energy and capital.

Mexico has long enjoyed railroad advantages. There are already seven gates into Mexico along the United States border, giving access to a net of over sixteen thousand miles of modern railroad, penetrating into practically every state in the republic of Mexico—and built for the most part by American enterprise. This system of railroads enables, in normal times, an efficient intercourse between the United States and Mexico, on a scale and with a facility that no other Latin American country can ever hope to attain.

This system of transportation is all the more efficient because of the fact that 90 per cent of it is of standard gauge construction. In normal times there may be seen, almost as far south as the Guatemalan border, cars of the Canadian Pacific, Grand Trunk, Great Northern, and almost every other trunk line north of the Rio Grande. The Pullman Company operates its system throughout the republic, and normally, railroad traveling in Mexico is as rapid and comfortable as the traveling in the United States.

Taking the Canadian, American and Mexican railroad systems as a unit, what other territory of similar extent anywhere can compare in efficiency with this remarkable steel net?

THE RAILROAD SITUATION IN MEXICO

The railroad situation in Mexico is not generally understood. The National Railways of Mexico, comprising about eight thousand miles, are Mexican only in name. It is true the government owns a trifle over 50 per cent of the stock of said railways. The govern-

ment, however, acquired this interest in the system by issuing its direct securities in the form of bonds, and which are guaranteed as to principle and interest, not by the physical property of the railways, but by the direct obligation of the government the same as any other national security. It may be further stated, that not one of these bonds so far as known is owned in Mexico either by the government or individually. The interest on these bonds as on all other government obligations has defaulted for over three years.

Nearly every railroad in Mexico—whether National Railways or otherwise—is a physical wreck from every point of view. Stations and freight yards everywhere have been burnt, blown up and wrecked, bridges and track ruthlessly dynamited, thousands of cars and locomotives utterly destroyed and untold damage caused in every conceivable way. Why, then, it may be asked, cannot the Mexican authorities urge the bondholders of the National Railways to foreclose on the property?

This, however, cannot be done. There was embodied a clause in the railway laws covering the relation of government and railways providing that if the government should at any time take over the possession and administration of the railways (as it has actually done for military and other reasons), the properties could not be returned without an indemnification equivalent to a yearly amount based on the average returns for the previous three years of operation preceding the seizure, as well as the devolution of the property in the same physical condition it was in at the time of taking possession of it.

It happens that the three years prior to the seizure were the most prosperous in the history of the roads. The Mexican government not only has no money or means with which to repair and rehabilitate the lines, but has absolutely no credit under present conditions to pledge. For these reasons the bondholders are in the peculiar position of being able to refuse to foreclose, and yet be absolutely guaranteed against loss, provided Mexico ever reestablishes its credit.

The representative bondholders of the National Lines are composed of syndicates whose status in international finances is such that, when the time arrives to discuss and arrange for the credit and rehabilitation of Mexico, they will have a very strong voice around the council table.

POLITICAL COMMISSIONS CAN DO LITTLE

At this time there are commissions from the United States and Mexico in session for the purposes of first adjusting international political misunderstandings (which for the purposes of this article need not concern us) and second of devising, if possible, ways and means for the financing and rehabilitation of Mexico.

The only way that the United States as a nation can bring about the second and most important of these requirements is by pledging its credit, which in the first place would require the sanction of our legislative houses, which we can discount as being an exceedingly remote possibility.

The only alternative is to seek the help of financial interests. It can be taken for granted that no syndicate or group of bankers will consider any financing in Mexico, which will not have as a guarantee the systematic and complete rehabilitation of the National Railways of Mexico. This means, briefly, that the administration of the property must be turned over to such parties as the representative bondholders may appoint, and not to a purely Mexican administration. What the bondholders will demand, therefore, is practically a receivership without foreclosure,—the terms and conditions of which this article cannot treat.

For these and other reasons it is almost impossible to conceive of Mexico's economical problems being solved by commissions of a purely political character in which representatives of industry are not even consulted.

It is well to emphasize the fact here, that Mexico's problems are purely economic and savor but slightly of the political. Despite opinion to the contrary, there is no longer revolution in Mexico. A revolution is an internal or family war, usually between two factions, each upholding some certain principle.

THE SOUTHERN PACIFIC OF MEXICO RAILROAD

There is one railroad system in Mexico that is little known, which, though 1,500 miles in extent, is not at present in any way correlated with the railroad net in the rest of the republic.

This is the Southern Pacific of Mexico, extending from Nogales, Arizona to Tepic and paralleling the Gulf of California and the Pacific Ocean. This recently constructed road has opened up some of the most beautiful country on this continent, whose development

and settlement cannot remain dormant when normal conditions are reestablished.

The west coast of Mexico as far south as Colima is literally at the foot of the Sierras and, for this reason, very little of its area is swampy or unfit for use. Little is heard of this garden spot, but acre for acre, it is no exaggeration to say, that minnerally, as well as for cattle raising and farming purposes, it would be difficult to find an area as rich in potential possibilities elsewhere or a territory where as little would have to be invested to obtain a given return, as in this almost perfect sunny region, opened up by the courage, enterprise and foresight of Harriman. If one half the capital and energy were to be expended on the west coast of Mexico as there has been in California alone, the world-famed development and beauties of the latter would pale in comparison.

In conclusion it may be said that the railroad situation in Mexico is such, on account of the peculiar conditions governing it, that it offers no immediate attractions from the new investor's point of view. The possibilities on the other hand are unlimited, but it is probable that except to connect existing systems and to complete the Southern Pacific from Tepic to Guadalajara and possibly to the City of Mexico, that there will not be seen any new railroad development of importance for some years to come.

While taking account of the railroad situation, it must not be forgotten, that Mexico with its triangular shape, the apex at the south and two sides bounded respectively by the Gulf of Mexico and the Pacific Ocean, has an enormous coast line ideally situated with respect to the Atlantic, Gulf and Pacific coasts and ports of the United States. While in normal times both coasts hitherto have had excellent service not only with the United States but maybe even better with Europe, it is probable that this means of transportation will be greatly increased.

The opening of the Panama Canal has doubled and trebled the number of ships plying along the Mexican coasts—especially the Pacific. Mexico unfortunately, through no fault of its own, possesses hardly any natural harbors of commercial value, and no deep rivers. Artificial ports have, however, been constructed at enormous costs and which give ample protection and economical means of handling freight. In this respect the ports on the Gulf are not only more numerous but they are better equipped.

MEXICAN RESOURCES BUT SLIGHTLY DEVELOPED

Regardless of the fact that there are invested in Mexico over two billions of dollars of foreign capital, of which the United States (despite official assertions to the contrary) is second in the list of subscribers, the resources of Mexico, whether mineral, agricultural or commercial, have hardly been touched.

The oil fields of Mexico, probably the most extensive in the world, cover practically the entire Gulf region of the country. Millions of dollars have been profitably invested in this industry, and the largest individual wells in the world are here situated.

Figures of the Geological Survey prove the above assertion, and it is a remarkable fact, that though the world's output of petroleum during the last year was the greatest in the history of the industry by over twenty million barrels—and despite the abnormal conditions in Mexico, this country was, nevertheless, third on the list of producers with close to thirty-three million barrels, and this amount would have been greater if tank ships had been available. It is an interesting fact not generally known, that the British Navy has depended during this war to a great extent for its oil supplies, on the oil fields of Mexico.

Enormous as this oil area is, its development has hardly commenced. As an indication of the inexhaustible nature of its wells, it can be stated that wells in the region from Tampico to Tuxpam—some of which have been flowing for years, and are the largest in the world—are giving as great an output as when “brought in” with apparently no diminution in sight.

The California and Yukon gold rushes do not begin to compare in importance or magnitude with the wealth being produced and the development taking place, even in these turbulent times, in the Mexican oil fields. Only present disturbed conditions obscure it from more general attention and sensational notice.

RICH MINERAL DEPOSITS

For its area, Mexico is without a doubt the richest mineral country in the world, of which gold, silver, iron, copper, lead, zinc and antimony head the long list. Its mines worked in primitive ways yielded millions since before the time of Cortez. Even now, mineral deposits without ownership are to be found throughout, which in the United States would be considered valuable, but which,

for lack of transportation facilities and because of other deposits of superior value surrounding them, at present remain unclaimed.

The immensity of Mexico's silver output hitherto can better be understood when it is realized that one-third of all the silver in the world at present in use has come from its mines. The gold production is almost as great in value. The coal and iron deposits of which latter there are literally mountains in the northern part of Mexico are exceeded probably only by the deposits in the United States and China. Mexico is truly the El Dorado of mineral wealth!

Mexico enjoys among its other attributes, every climate conceivable, from tropical to arctic due to the varied altitude of its terrain, ranging from sea level to heights of eighteen thousand feet. Is it any wonder then that within its borders are found coffee, vanilla, precious woods of every kind, fruits of every description, hemp, cotton and in fact most every product depending on varied climatic condition till the pines and the tractless regions of eternal snows are reached!

It is of interest to know that many sections of railroad in Mexico have ties of mahogany and ebony, and that miles of track are ballasted with silver ore—valuable now, but too costly to work by old processes. Houses are beamed and constructed with these precious woods and mines are similarly timbered! It is truly a nation capable of self support as no other country in the world.

COMMERCIAL POSSIBILITIES

Pages may be written about commercial possibilities. Mexico has always imported practically every manufactured product she uses even to the majority of manufactured cotton, although she raises quantities of this staple and for some time has possessed very modern cotton factories.

In connection with cotton it is worthy of note that whereas prior to the conquest Mexico was producing nearly one hundred and twenty million pounds, since about 1882 when the industry was revived (after being completely destroyed by the Spaniards), the production has never been much in excess of fifty million pounds—an amount entirely inadequate to the needs of the country.

Food products, including such important staples as corn and wheat, have likewise always been imported in enormous quantities.

It is a remarkable fact to contemplate and which goes to emphasize the extraordinary potential possibilities of the country, that the fiscal year ended in June disclosed the fact that the trade returns between the United States and Mexico were the greatest in the history of Mexico, surpassing any previous record even during boom times preceding the present troubles.

The United States' imports from Mexico for the fiscal year were close to the colossal figure of \$100,000,000, while the exports of this country to Mexico were close to \$50,000,000. The figures for our imports from Mexico establish a record, but our exports were much below the average of normal times. To further accentuate these remarkable facts it is well to draw attention to the fact that the above figures on importations do not include those of the precious metals which if taken into account would further increase the remarkable record of the year.

MILITARY PROBLEMS

One of the greatest problems for solution—equalled in importance only by the adjustment of claims and the rehabilitation of transportation lines—is going to be the redemption of the present innumerable issues of paper currency, issued arbitrarily and in unlimited amounts. An approximate estimate is probably about \$750,000,000. Mexico has reached a point of development, and its international obligations and commerce are such, that it must, for its prosperity and economical purposes, maintain a metallic basis. This metallic basis was created by law, and conditions would under no circumstances permit its abrogation. Its operation, therefore, will return with the adjustment of affairs.

The nullification of the present fiat currency should not present a very serious economic problem, for the reason that it has not (except for immediate urgent purposes) been accepted by legitimate business, and when so accepted has in most cases been almost immediately converted. Internal commerce has been almost completely paralyzed and external commerce has been at all times on a gold standard. The fiat currency has been used in most cases for military purposes, to pay off compulsory military services, military requirements and supplies, and may well be defined as "military currency."

Making a drastic statement of it, it may be said that the arbi-

trary and summary cancellation of all existing paper issues (other than bank notes which existed prior to the governmental issues of recent years) would likely work no national and probably very little personal hardship.

The justification for any step which would create as quickly as possible a metallic currency is better understood if it is borne in mind that the great majority of investments of an industrial nature in Mexico, including the railroads, have been made by foreigners and that the investment of this capital has been on a gold basis. Such of these industries as are bonded are likewise bonded on a gold basis, and the absurdity of receiving revenues in paper currency not backed metallicity, and having to meet obligations and pay interest on a gold basis, is at once evident, and hence no semblance of stability can exist till this problem is successfully met. Just what form this elimination will take and by what means it can be brought about, only future developments can decide.

EUROPEAN INTERESTS IN MEXICO

Europe, despite its handicap of distance as compared with the United States, has consistently retained much of the commerce of Mexico which logically belongs to this country. Many reasons may be advanced to explain this. Briefly, however, the principal contributing cause has been the lack of American banking facilities as compared with those dominated by European influence. In fact no comparison can be made because there are no American banks with which to make a comparison. It can truly be said that the banking business in Mexico is entirely in the hands of Europeans. Apart from some purely local state institutions, there are no banks in Mexico capitalized, owned or conducted by Mexicans.

The great pillars of finance and credit in Mexico, such as the National Bank of Mexico and the Bank of London and Mexico, were capitalized and have always been controlled in Europe and are managed and directed by Europeans. The two leading banks of Canada, *i.e.*, the Bank of Montreal and the Canadian Bank of Commerce have each branches in Mexico. On the other hand, there is not a single American controlled banking institution doing international business in the whole of Mexico!

Mexico—like other Latin American countries whose initial progress has been due to European enterprise—has been accustomed

to obtain its credit in Europe in customary European ways. While present world events may tend to modify these conditions somewhat, we, as a nation, through our institutions of credit, must meet our would-be commercial partners half way, and not, as heretofore, in somewhat arbitrary style. We must, in other words, study their problems and conditions. Mexico must likewise adjust itself to the new conditions as other nations—and indeed the world at large—is doing.

A "Short Term Obligation" in Latin America prior to the war was a thing unknown. This class of obligation, however, has been found the only practical one to use by the peculiar conditions prevailing in the United States, for the reason, that the American investor has not hitherto had either the desire or the necessity to invest in foreign securities or look to foreign fields for investment, and it is not to be expected that he would take kindly to long term obligations abroad.

But even in this country we are undergoing an industrial evolution of which most of us are hardly conscious and will not realize till we waken up to find it. While isolated cases may be shown, it can truly be stated that, as a nation, we had never, up to two years ago, acted as bankers for the world. Inside of this time, however, we have loaned abroad close to a billion dollars—not a dollar of which has been other than in the form of a short term issue.

Mexico, like many other countries, is not a banker nation and has little money or capital to develop its resources, but it has the equivalent—and in almost unlimited amounts—*i.e.*, realizable assets, the foundation of sound credit.

PLANS FOR THE FUTURE

Great enterprises are already planned to be carried out as soon as a readjustment takes place. These include the rebuilding and building of railroads, construction of ports and harbors, erection of great irrigation systems and great commercial enterprises, including the construction of colossal hydro-electric systems, the opening up of great bodies of ore, the erection of large manufacturing enterprises of all kinds, etc.

The keynote of our successful commercial conquest, not only in Mexico but throughout Latin America, will be our willingness and ability to absorb the public securities of these countries when they are soundly created and to construct and develop the above

mentioned enterprises. Their education by Europeans has been along these lines, and we must endeavor as far as possible to follow until in the process of time we can undertake and carry on a method of our own.

In the larger undertakings involving great investments of capital, it is not compatible with the best results to encourage too much competition. Here again we can profitably learn from our European cousins. Restraint of trade should not be tolerated, but neither should cut-throat competition prevail. Circumstances alter cases, and as the foreign fields present different problems, so we should devise a different method of solution.

Such undertakings as the Trans-Andean Railroad, the Trans-Isthmian Railroad at Tehauntepec in Mexico, the sanitation and harbor improvements at Vera Cruz and the improvements being undertaken in Valparaiso, Chile, at an approximate expenditure of \$15,000,000 have all been undertaken and carried out with constructive coöperation rather than with destructive competition, thereby assuring efficiency and permanency in pioneer fields.

GENERAL CONCLUSIONS

It may, therefore, be stated in conclusion that, eliminating present political conditions in Mexico as being transitory and to be followed by a long and permanent peace, Mexico must no longer be looked upon as a country of pioneer conditions. The network of railroads covering the country from the United States border to Guatemala and the Gulf to the Pacific as well as its adequate artificial harbors, highly developed hydro-electric systems, modern municipal improvements, its splendidly and modernly equipped and operated mines and smelters for gold, silver, lead, copper, zinc, iron, etc., are all indications that the path is blazed and even paved. There is needed only the establishment of large and sound American international banks, similar to those splendid and solid British institutions found throughout South America, which are the solid foundations of British domination in commercial lines throughout the world.

The policy of such institutions, while conservative, should be judiciously liberal to meet the requirements of the situation, and should not merely furnish a medium of exchange or act as commercial "pawnshops." We must in the great development of those coun-

tries, most of which must be done primarily through coöperation with their governments, learn to absorb their securities under certain guarantees as they are issued and to create industry and improvements thereby augmenting the security as well as the revenue.

Hitherto the tendency in the United States has been to look upon the would-be investor in Latin America as an adventurer rather than as a practical business man. He is, however, far from deserving this stigma, any more than such pioneers as Harriman, Hill and others. The strength of the British Empire, as demonstrated in this present European War, is the direct result of its investments and commerce abroad. Great Britain has invested in Brazil about \$750,000,000, in Argentine about \$1,500,000,000, in Chile about \$325,000,000, and in other countries in proportion. The mobilization of her resources during this war has clearly demonstrated the power of foreign investments when effected along sound lines.

Mexico, more than any other country, is literally beckoning us to aid her and incidentally to profit by it. Are we going to take advantage of the opportunity or are we going to let some one else usurp our right?